

**COUNTY OF SAN BERNARDINO
SPECIAL DISTRICTS
COUNTY SERVICE AREA No. 38
COUNTY FIRE**

REPORT ON AUDIT

JUNE 30, 2006

**County of San Bernardino Special Districts
County Service Area No. 38
County Fire
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Board of Supervisors
County of San Bernardino
County of San Bernardino Special
District County Service Area
No. 38 - County Fire

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the County of San Bernardino Special District County Service Area No. 38 - County Fire (CSA), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2006, which collectively comprise the CSA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirement for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the County of San Bernardino Special District County Service Area No. 38 - County Fire, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

The budgetary comparison information on page 21 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The County of San Bernardino Special District County Service Area No. 38 - County Fire has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CSA's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

Rogers, Anderson, Malady & Scott, LLP

September 15, 2006

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County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Net Assets
June 30, 2006

ASSETS

Cash and cash equivalents	\$ 13,172,609
Interest receivable	121,328
Taxes receivable	632,959
Due from other governments	738,626
Capital assets, net of depreciation	<u>6,562,108</u>
 Total Assets	 <u>21,227,630</u>

LIABILITIES

Accounts payable	920,942
Salaries and benefits payable	187,440
Due to other governments	1,702,489
Long-term liabilities:	
Due within one year	172,947
Due in more than one year	<u>662,055</u>
 Total Liabilities	 <u>3,645,873</u>

NET ASSETS

Invested in capital assets, net of related debt	5,727,106
Unrestricted	<u>11,854,651</u>
 Total Net Assets	 <u><u>\$ 17,581,757</u></u>

The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Activities
For the Year Ended June 30, 2006

EXPENSES

Salaries and benefits	\$ 9,993,929
Services and supplies	3,286,907
Depreciation	584,683
Interest on debt	17,746
Contributions to other governments	1,875,000
Other	635
Total Program Expenses	<u>15,758,900</u>

PROGRAM REVENUES

Charges for services	3,036,995
Operating grants and contributions	11,242,155
Net Program Expense	<u>(1,479,750)</u>

GENERAL REVENUES

Property taxes	8,208,232
Other taxes	657,028
Investment earnings	212,266
State assistance	209,336
Federal assistance	629,009
Other	58,061
Loss on sale of capital assets	(26,145)
Total General Revenues	<u>9,947,787</u>

Change in Net Assets	8,468,037
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Net Assets - beginning	<u>9,113,720</u>
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Net Assets - ending	<u><u>\$ 17,581,757</u></u>
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The accompanying notes are an integral part of these financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Balance Sheet
Governmental Funds
June 30, 2006

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	General (SGP)	Fire Station - Baker (CHW)	Construct Fire Station 40 (CWU)
ASSETS			
Cash and cash equivalents	\$ 7,943,152	\$ 1,128,959	\$ 3,873,935
Interest receivable	57,636	21,472	36,824
Taxes receivable	594,913	-	-
Due from other governments	738,626	-	-
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 9,334,327</u>	<u>\$ 1,150,431</u>	<u>\$ 3,910,759</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 650,390	\$ 270,552	\$ -
Salaries and benefits payable	187,440	-	-
Due to other governments	1,555,097	-	-
Total Liabilities	<hr/> 2,392,927 <hr/>	<hr/> 270,552 <hr/>	<hr/> - <hr/>
Fund Balances:			
Reserved for:			
Imprest cash	3,450	-	-
Encumbrances	502,897	98,713	-
Unreserved:			
Undesignated	6,435,053	781,166	3,910,759
Total Fund Balances	<hr/> 6,941,400 <hr/>	<hr/> 879,879 <hr/>	<hr/> 3,910,759 <hr/>
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 9,334,327</u>	<u>\$ 1,150,431</u>	<u>\$ 3,910,759</u>

Amounts reported for *governmental activities* in the statement of net assets (Exhibit A) are different because:

Capital assets used in governmental activities are not financial resources and, therefore are not reported in the governmental funds.

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds
Capital lease payable

Net Assets of Governmental Activities

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 226,563	\$ 13,172,609
5,396	121,328
38,046	632,959
-	738,626
<u>\$ 270,005</u>	<u>\$ 14,665,522</u>
\$ -	\$ 920,942
-	187,440
147,392	1,702,489
<u>147,392</u>	<u>2,810,871</u>
-	3,450
-	601,610
122,613	11,249,591
<u>122,613</u>	<u>11,854,651</u>
<u>\$ 270,005</u>	
	6,562,108
	<u>(835,002)</u>
	<u>\$ 17,581,757</u>

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUNDS	
	General (SGP)	Fire Station - Baker (CHW)	Construct Fire Station 40 (CWU)
REVENUES			
Property taxes	\$ 7,779,357	\$ -	\$ -
Special assessments	-	-	-
Other taxes	624,964	-	-
Rent and concessions	10,800	-	-
State assistance	202,368	-	-
Federal assistance	629,009	-	-
Contributions from other governments	6,624,045	1,000,000	3,500,000
Service fees	2,876,732	-	-
Investment earnings	89,969	52,234	58,445
Other	47,261	-	-
Total Revenues	<u>18,884,505</u>	<u>1,052,234</u>	<u>3,558,445</u>
EXPENDITURES			
Salaries and benefits	10,019,459	-	-
Services and supplies	2,931,518	-	-
Contributions to other governments	1,855,000	-	-
Other	635	-	-
Debt service:			
Principal	83,945	-	-
Interest	17,746	-	-
Capital outlay:			
Equipment	150,505	-	-
Vehicles	1,609,139	-	-
Improvements to land	-	-	-
Structures and improvements	251,145	2,008,328	44,791
Total Expenditures	<u>16,919,092</u>	<u>2,008,328</u>	<u>44,791</u>
Excess of Revenues Over (Under) Expenditures	<u>1,965,413</u>	<u>(956,094)</u>	<u>3,513,654</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	445,355	-	-
Transfers out	-	-	-
Proceeds from issuance of long-term debt	621,958	-	-
Proceeds from sale of capital assets	10,591	-	-
Total Other Financing Sources (Uses)	<u>1,077,904</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	3,043,317	(956,094)	3,513,654
Fund Balances - beginning	<u>3,898,083</u>	<u>1,835,973</u>	<u>397,105</u>
Fund Balances - ending	<u><u>\$ 6,941,400</u></u>	<u><u>\$ 879,879</u></u>	<u><u>\$ 3,910,759</u></u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 428,875	\$ 8,208,232
160,263	160,263
32,064	657,028
-	10,800
6,968	209,336
-	629,009
118,110	11,242,155
-	2,876,732
11,618	212,266
-	47,261
<u>757,898</u>	<u>24,253,082</u>
1,378	10,020,837
128,794	3,060,312
20,000	1,875,000
-	635
-	83,945
-	17,746
-	150,505
120,770	1,729,909
9,693	9,693
13,700	2,317,964
<u>294,335</u>	<u>19,266,546</u>
<u>463,563</u>	<u>4,986,536</u>
-	445,355
(445,355)	(445,355)
-	621,958
-	10,591
<u>(445,355)</u>	<u>632,549</u>
18,208	5,619,085
<u>104,405</u>	<u>6,235,566</u>
<u>\$ 122,613</u>	<u>\$ 11,854,651</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2006**

Net Change in Fund Balances - Total Governmental Funds	\$ 5,619,085
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$3,981,476) exceeded depreciation expense (\$584,683) in the current period.	3,396,793
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In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	(36,736)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Decrease in compensated absences payable	26,908

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Proceeds from issuance of long-term debt	(621,958)
Principal payments	83,945

Change in Net Assets of Governmental Activities	\$ 8,468,037
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The accompanying notes are an integral part of these financial statements.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area (CSA) No. 38 was established by an act of the Board of Supervisors of the County of San Bernardino (the County) on January 21, 1946 under Section 4700 of the State Health & Safety Code. It has combined resources with the California Department of Forestry and Fire Protection (CDF) to form an integrated fire protection system in the unincorporated areas, outside of the county fire districts, on a contract basis.

The CSA is a component unit of the County of San Bernardino and is governed by the actions of the County Board of Supervisors.

The accompanying financial statements reflect only the accounts of the County Service Area No. 38 of the County of San Bernardino and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2006.

Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the CSA does not have any proprietary or fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenue fund* labeled "General" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* labeled "Construct Fire Station 40" accounts for construction related activities of fire station 40.

The *capital projects fund* labeled "Fire Station Baker" accounts for activities of the fire station improvements in Baker.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (e.g., the current portion of interfund loans) or "advances to/from other funds" (e.g., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Currently, the CSA does not have any business-type activities.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of two years. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	40 - 60
Structures and improvements	5 - 40
Equipment and vehicles	4 - 15

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The CSA is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2006 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer Out</u>	<u>Ending Balance</u>
\$ 26,908	\$ -	\$ -	\$ (26,908)	\$ -

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for fixed assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Deficit Fund Equity

The Fire Station Devore Fund has a deficit fund balance of \$144,984 as of June 30, 2006.

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitment will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND DEPOSITS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2006.

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 3: CAPITAL ASSETS

Capital asset activity for year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 179,708	\$ -	\$ -	\$ 179,708
Construction in progress	261,385	1,823,470	(23,393)	2,061,462
Total capital assets, not being depreciated	441,093	1,823,470	(23,393)	2,241,170
Capital assets, being depreciated:				
Land improvements	127,258	4,893	-	132,151
Structures and improvements	2,481,392	227,840	-	2,709,232
Vehicles	7,715,355	1,657,679	(183,827)	9,189,207
Equipment	237,252	322,304	(19,656)	539,900
Total capital assets, being depreciated	10,561,257	2,212,716	(203,483)	12,570,490
Less accumulated depreciation for:				
Land improvements	(44,141)	(3,487)	-	(47,628)
Structures and improvements	(784,242)	(56,310)	-	(840,552)
Vehicles	(6,809,384)	(531,293)	178,412	(7,162,265)
Equipment	(162,532)	(48,303)	11,728	(199,107)
Total accumulated depreciation	(7,800,299)	(639,393) *	190,140	(8,249,552)
Total capital assets, being depreciated, net	2,760,958	1,573,323	(13,343)	4,320,938
Total capital assets, net	\$ 3,202,051	\$3,396,793	\$ (36,736)	\$ 6,562,108

* This amount includes current year depreciation of \$584,683 and \$54,710 for accumulated depreciation as of 6/30/06 for vehicles with a cost of \$418,214 transferred to the CSA in the current year.

NOTE 4: LONG-TERM DEBT

Capital Lease

CSA No. 38 has entered into lease agreements as lessee for financing the acquisition of five pumper trucks. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006

NOTE 4: LONG-TERM DEBT (continued)

The assets acquired through this capital lease are as follows:

Vehicles	\$ 1,025,173
Less: accumulated depreciation	<u>(173,983)</u>
Total	<u><u>\$ 851,190</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

<u>Year Ending June 30,</u>	
2007	\$ 203,382
2008	203,382
2009	203,382
2010	203,382
2011	<u>101,690</u>
Total minimum lease payments	915,218
Less: amount representing interest	<u>(80,216)</u>
Present value of minimum lease payments	<u><u>\$ 835,002</u></u>

Change in long-term liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Capital leases	<u>\$ 296,988</u>	<u>\$ 621,959</u>	<u>\$ (83,945)</u>	<u>\$ 835,002</u>	<u>\$ 172,947</u>
Governmental activity					
Long-term liabilities	<u><u>\$ 296,988</u></u>	<u><u>\$ 621,959</u></u>	<u><u>\$ (83,945)</u></u>	<u><u>\$ 835,002</u></u>	<u><u>\$ 172,947</u></u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 5: RETIREMENT PLAN

Plan description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (the MDAQMD) and the South Coast Air Quality Management District (the AQMD), were later included, along with the County of San Bernardino (the County), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2006.

Funding policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.89% - 12.65% for general members and 10.85% - 14.77% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 10.8%, County Safety 23.84%. All employers combined are required to contribute 13.01% of the current year covered payroll. For 2006, the County's annual pension cost of \$166,614,000 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 5: RETIREMENT PLAN (continued)

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2006, were as follows (in thousands):

Annual Required Contribution (County fiscal year basis)	\$ 166,614
Interest on Pension Assets	(34,207)
Adjustment to the Annual Required Contribution	40,156
Annual Pension Cost	<u>172,563</u>
Annual Contributions Made	<u>166,614</u>
Increase/(Decrease) in Pension Assets	(5,949)
Pension Assets, Beginning of Year	<u>844,882</u>
Pension Assets, End of Year	<u><u>\$ 838,933</u></u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Contributions Made (in thousands)		Percentage Contributed
	SBCERA	County	
2004	\$ 652,325	\$ 540,106	100%
2005	\$ 161,906	\$ 141,450	100%
2006	\$ 197,343	\$ 166,614	100%

The County, along with the AQMD, issued Pension Refunding Bonds (the Bonds) in November 1995 with an aggregate amount of \$420,527,000. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266,000. The current amount outstanding at June 30, 2006 is \$439,879,000.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070,000, \$149,825,000 and \$125,000,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. The current amount outstanding at June 30, 2006 is \$461,665,000.

County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: RISK MANAGEMENT

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The IBNR and IBNS liabilities stated on the Risk Management Fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 4.25%. It is the County's practice to obtain actuarial studies on an annual basis.

The County has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The County's investment in the agreement totaled \$47.7 million at June 30, 2006.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Notes to Financial Statements
June 30, 2006**

NOTE 7: RISK MANAGEMENT (continued)

The total claims liability of \$127.2 million reported at June 30, 2006 is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2005 and 2006 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	End of Fiscal Year Liability (in thousands)
2004 - 05	\$ 101,709	\$ 44,309	\$ (30,304)	\$ 115,714
2005 - 06	\$ 115,714	\$ 46,926	\$ (35,407)	\$ 127,233

NOTE 8: TRANSFERS IN/OUT

Interfund transfers are transactions used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital projects funds. At June 30, 2006, the CSA made the following interfund transfers in and out:

	<u>Transfers in:</u>
	Special
	Revenue Fund
	<u>General (SGP)</u>
<u>Transfers out:</u>	
Nonmajor governmental funds	<u>\$ 445,355</u>
Total	<u><u>\$ 445,355</u></u>

NOTE 9: CONTINGENCIES

As of June 30, 2006, in the opinion of the CSA Administration, there are no outstanding matters, which would have a significant effect on the financial position of the CSA.

NOTE 10: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2005-2006 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended June 30, 2006**

	Special Revenue Fund			
	General (SGP)			
	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 7,214,000	\$ 7,214,000	\$ 7,779,357	\$ 565,357
Other taxes	-	-	624,964	624,964
Rent and concessions	14,400	14,400	10,800	(3,600)
State assistance	-	-	202,368	202,368
Federal assistance	-	421,600	629,009	207,409
Contributions from other governments	2,383,399	6,700,819	6,624,045	(76,774)
Service fees	2,331,209	2,331,209	2,876,732	545,523
Investment earnings	-	-	89,969	89,969
Other	30,000	30,000	47,261	17,261
Total Revenues	11,973,008	16,712,028	18,884,505	2,172,477
EXPENDITURES				
Salaries and benefits	10,615,388	12,215,388	10,019,459	2,195,929
Services and supplies	2,363,521	3,190,021	2,931,518	258,503
Contributions to other governments	785,000	1,855,000	1,855,000	-
Other	1,440	1,440	635	805
Debt service:				
Principal	320,000	320,000	83,945	236,055
Interest	90,000	90,000	17,746	72,254
Capital outlay:				
Equipment	48,000	179,000	150,505	28,495
Vehicles	285,000	988,500	1,609,139	(620,639)
Structures and improvements	145,000	724,420	251,145	473,275
Reserves and contingencies	816,592	645,192	-	645,192
Total Expenditures	15,469,941	20,208,961	16,919,092	3,289,869
Excess of Revenues Over (Under) Expenditures	(3,496,933)	(3,496,933)	1,965,413	5,462,346
OTHER FINANCING SOURCES (USES)				
Transfers in	445,355	445,355	445,355	-
Proceeds from issuance of long-term debt	-	-	621,958	621,958
Proceeds from sale of capital assets	-	-	10,591	10,591
Total Other Financing Sources (Uses)	445,355	445,355	1,077,904	632,549
Net Change in Fund Balance	\$(3,051,578)	\$(3,051,578)	3,043,317	6,094,895
Fund Balance - beginning			3,898,083	
Fund Balance - ending			\$ 6,941,400	

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	SPECIAL REVENUE FUNDS			
	Zone D (SGS)	Zone H (SHA)	Zone J (SHD)	Zone K (SHG)
ASSETS				
Cash and cash equivalents	\$ 31,894	\$ 15,437	\$ 54,190	\$ 20,503
Interest receivable	834	564	2,122	666
Taxes receivable	8,970	6,071	10,641	6,898
Total Assets	<u>\$ 41,698</u>	<u>\$ 22,072</u>	<u>\$ 66,953</u>	<u>\$ 28,067</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other governments	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved:				
Undesignated (deficit)	<u>41,698</u>	<u>22,072</u>	<u>66,953</u>	<u>28,067</u>
Total Fund Balances	<u>41,698</u>	<u>22,072</u>	<u>66,953</u>	<u>28,067</u>
Total Liabilities and Fund Balances	<u>\$ 41,698</u>	<u>\$ 22,072</u>	<u>\$ 66,953</u>	<u>\$ 28,067</u>

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS		
Zone M (SHP)	Zone N (SHS)	Zone L (SHV)	Fire Station - Devore (CEB)	Communications (CEU)	Water System Improv (CGK)
\$ 6,461	\$ 84,538	\$ 1	\$ 2,408	\$ 8,563	\$ 2,264
-	1,129	-	-	81	-
280	1,858	3,328	-	-	-
<u>\$ 6,741</u>	<u>\$ 87,525</u>	<u>\$ 3,329</u>	<u>\$ 2,408</u>	<u>\$ 8,644</u>	<u>\$ 2,264</u>
\$ -	\$ -	\$ -	\$ 147,392	\$ -	\$ -
-	-	-	147,392	-	-
6,741	87,525	3,329	(144,984)	8,644	2,264
6,741	87,525	3,329	(144,984)	8,644	2,264
<u>\$ 6,741</u>	<u>\$ 87,525</u>	<u>\$ 3,329</u>	<u>\$ 2,408</u>	<u>\$ 8,644</u>	<u>\$ 2,264</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

	CAPITAL PROJECTS FUNDS		
	Stucco Station #4 (CKW)	Retaining Defibrillator (CPL)	Retaining Wall (CWH)
ASSETS			
Cash and cash equivalents	\$ 5	\$ 82	\$ 209
Interest receivable	-	-	-
Taxes receivable	-	-	-
Total Assets	<u>\$ 5</u>	<u>\$ 82</u>	<u>\$ 209</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other governments	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Unreserved:			
Undesignated (deficit)	<u>5</u>	<u>82</u>	<u>209</u>
Total Fund Balances	<u>5</u>	<u>82</u>	<u>209</u>
Total Liabilities and Fund Balances	<u>\$ 5</u>	<u>\$ 82</u>	<u>\$ 209</u>

CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
Rehab Station #4 (CWJ)	Security Fencing (CWT)	
\$ 8	\$ -	\$ 226,563
-	-	5,396
-	-	38,046
<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 270,005</u>
\$ -	\$ -	\$ 147,392
-	-	147,392
8	-	122,613
8	-	122,613
<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 270,005</u>

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2006**

	SPECIAL REVENUE FUNDS			
	Zone D (SGS)	Zone H (SHA)	Zone J (SHD)	Zone K (SHG)
REVENUES				
Property taxes	\$ 116,754	\$ 79,149	\$ 137,324	\$ 90,249
Special assessments	-	-	-	-
Other taxes	8,511	6,005	10,825	6,723
Contributions from other governments	-	-	95,000	-
Investment earnings	1,439	1,009	4,364	1,190
State assistance	1,922	1,298	2,272	1,476
Total Revenues	128,626	87,461	249,785	99,638
EXPENDITURES				
Salaries and benefits	-	-	-	-
Services and supplies	1,788	1,212	2,106	1,383
Contributions to other governments	-	-	-	-
Capital outlay:				
Equipment	-	-	120,770	-
Improvements to land	-	-	-	-
Structures and improvements	-	-	-	-
Total Expenditures	1,788	1,212	122,876	1,383
Excess of Revenues Over (Under) Expenditures	126,838	86,249	126,909	98,255
OTHER FINANCING SOURCES (USES)				
Transfers out	(100,500)	(75,000)	(151,931)	(85,000)
Total Other Financing Sources (Uses)	(100,500)	(75,000)	(151,931)	(85,000)
Net Change in Fund Balances	26,338	11,249	(25,022)	13,255
Fund Balances - beginning	15,360	10,823	91,975	14,812
Fund Balances - ending	\$ 41,698	\$ 22,072	\$ 66,953	\$ 28,067

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS		
Zone M (SHP)	Zone N (SHS)	Zone L (SHV)	Fire Station - Devore (CEB)	Communications (CEU)	Water System Improv (CGK)
\$ 503	\$ 2,589	\$ 2,307	\$ -	\$ -	\$ -
6,354	34,361	119,548	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
79	3,117	18	58	236	84
-	-	-	-	-	-
6,936	40,067	121,873	58	236	84
177	53	1,148	-	-	-
170	-	122,618	-	-	-
-	20,000	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
347	20,053	123,766	-	-	-
6,589	20,014	(1,893)	58	236	84
-	(32,924)	-	-	-	-
-	(32,924)	-	-	-	-
6,589	(12,910)	(1,893)	58	236	84
152	100,435	5,222	(145,042)	8,408	2,180
\$ 6,741	\$ 87,525	\$ 3,329	\$ (144,984)	\$ 8,644	\$ 2,264

**County of San Bernardino Special Districts
County Service Area No. 38 - County Fire
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2006**

	CAPITAL PROJECTS FUNDS		
	Stucco Station #4 (CKW)	Retaining Defibrillator (CPL)	Retaining Wall (CWH)
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Other taxes	-	-	-
Contributions from other governments	5,000	-	5,000
Investment earnings	5	2	9
State assistance	-	-	-
Total Revenues	5,005	2	5,009
EXPENDITURES			
Salaries and benefits	-	-	-
Services and supplies	-	-	-
Contributions to other governments	-	-	-
Capital outlay:			
Equipment	-	-	-
Improvements to land	-	-	4,800
Structures and improvements	5,000	-	-
Total Expenditures	5,000	-	4,800
Excess of Revenues Over (Under) Expenditures	5	2	209
OTHER FINANCING SOURCES (USES)			
Transfers out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	5	2	209
Fund Balances - beginning	-	80	-
Fund Balances - ending	\$ 5	\$ 82	\$ 209

CAPITAL PROJECTS FUNDS		Total Nonmajor Governmental Funds (see Exhibit C)
Rehab Station #4 (CWJ)	Security Fencing (CWT)	
\$ -	\$ -	\$ 428,875
-	-	160,263
-	-	32,064
8,700	4,410	118,110
8	-	11,618
-	-	6,968
8,708	4,410	757,898
-	-	1,378
-	(483)	128,794
-	-	20,000
-	-	120,770
-	4,893	9,693
8,700	-	13,700
8,700	4,410	294,335
8	-	463,563
-	-	(445,355)
-	-	(445,355)
8	-	18,208
-	-	104,405
\$ 8	\$ -	\$ 122,613